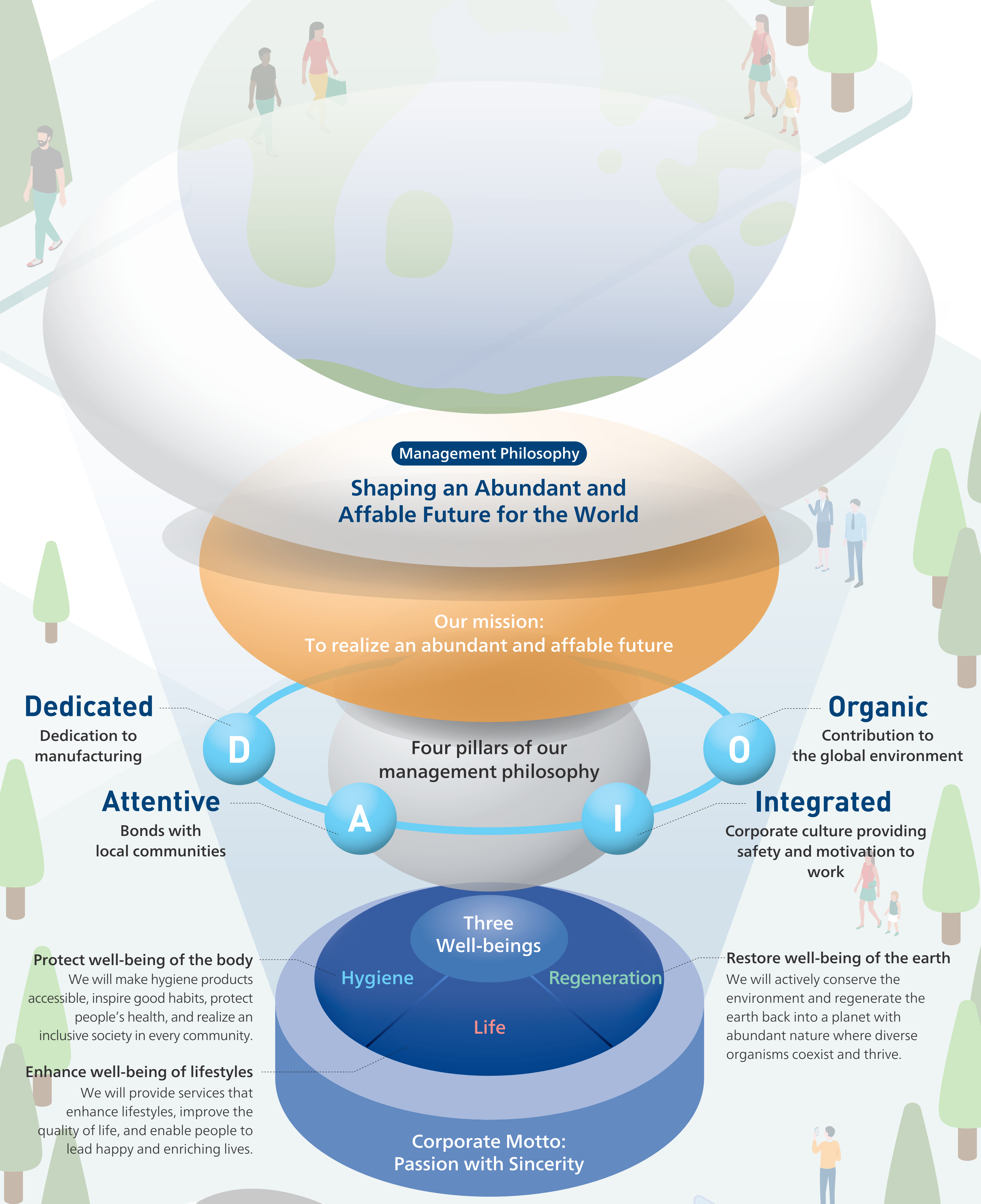
Management Philosophy and Purpose

Management Philosophy

Shaping an Abundant and Affable Future for the World

Purpose

Under our corporate motto of Passion with Sincerity (our value), we will achieve Three Well-beings (our vision) and realize an abundant and affable future (our mission).



Long-Term Vision

Daio Group Transformation 2035

The Daio Group will expand in the fields of Home and Personal Care (H&PC) and advanced materials, alongside papermaking, to realize its management philosophy "Shaping an abundant and affable future for the world"

Focus themes toward 2035

Strengthening competitiveness by addressing four themes based on material issues

1 Area

Domestic focus ▸ Global presence, including Japan

» p.41 Acceleration of global expansion

2 Strengths

Manufacturing/ sales/factories/ facilities ▸ Adaptability to environmental changes, R&D and marketing capabilities

» p.50 Strategic transformation of our business portfolio
» p.51 Creation of new businesses

3 Energy

Fossil fuel (coal) ▸ Woody fuel and community-sourced waste-derived fuel for regional sustainability

» p.67 Response to climate change

4 Source of value creation

Human resources

Investment in securing and developing human resources that drive transformation

Corporate culture

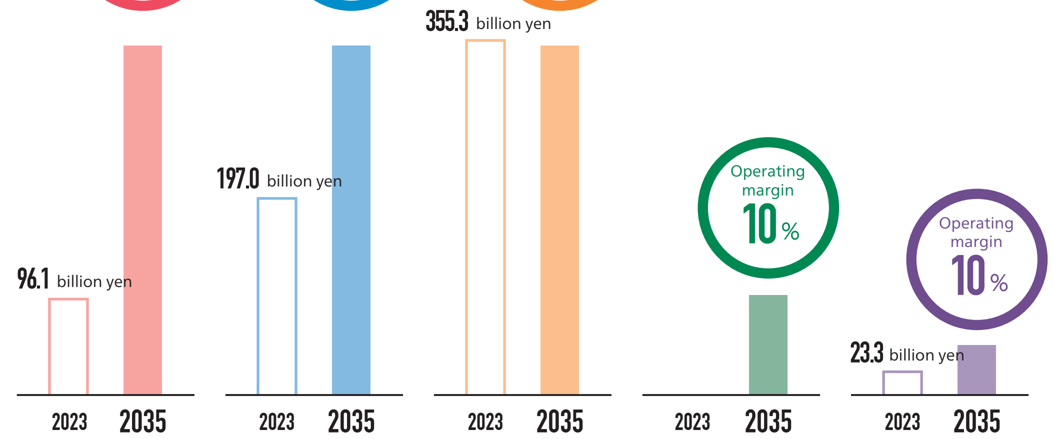
Revamp of corporate culture and work-style mindset

» p.59 Respect for human rights, development of human resources, and compassion for employees

Target

Aim to maximize profit in Japan and to expand net sales overseas while securing profitability. Achieve consolidated net sales of 1.2 trillion yen and operating margin of 10%.

	Home & Personal Care Overseas Business	Home & Personal Care Domestic Business	Paper & Paperboard Business	New Businesses	Other Businesses
Net sales (2035)	350.0 billion yen	350.0 billion yen	350.0 billion yen	100.0 billion yen	50.0 billion yen
Operating margin	5%	15%	10%	10%	10%



Message from the President and CEO

Advancing transformation with a focus on human resources as the source of value creation

Yorifusa Wakabayashi
President and Representative Director
Chief Executive Officer

Past and future of the Daio Group

Business environment analysis

When I joined Daio Paper, the Japanese economy was in a period of stable growth following its rapid economic growth. It was an era characterized by mass production and mass consumption. Many companies adopted a product-oriented approach to their business, focusing on how to get consumers to use their products. Forty years have passed since then, and the business environment surrounding our company has changed dramatically. In Japan, we are facing a shrinking paper market, and consumers' needs are diversifying. In this changing business environment, we must adopt a market-oriented approach to carefully cater to the diversifying needs of consumers, rather than following the product-oriented approach of the past. Looking overseas, geopolitical risks have surged recently, as evidenced by the Russia-Ukraine war. In addition, we are experiencing a dizzying array of environmental changes, including sharp increases in raw material and fuel prices, volatile exchange rate fluctuations, and persistent inflation in many countries. The pace of these changes is accelerating each year.

To realize our management philosophy of "Shaping an abundant and affable future for the world," we uphold the vision of the Three Well-beings: Hygiene (protect the well-being of the body), Life (enhance the well-being of lifestyles), and Regeneration (restore the well-being of the earth). Specifically, our vision is rooted in the concept of creating a Hygienic environment through the widespread use of our elleair products, helping everyone, including our employees, lead enriched Lives, and contributing to the Regeneration of the global environment by achieving carbon neutrality. Our corporate motto, "Passion with Sincerity," reflects the words of our founder. This motto has been passed down through generations and remains central to our company's identity. As we move beyond the era of mass production and mass consumption that existed at the time of our establishment, I am calling on our employees to demonstrate GRIT (Guts, Resilience, Initiative, Tenacity) to further amplify "Passion with Sincerity."

Ambitions underpinning the Long-Term Vision "Daio Group Transformation 2035"

Since FY2012, we have been implementing a three-year Medium-Term Business Plan (hereinafter, "MTBP") across four terms, with the 4th MTBP concluding in FY2023. In an era of rapid change, accurately predicting the next 12 years is challenging. However, it remains crucial to share the direction in which the Daio Group is heading with all employees. Management and employees must align their goals and work together to enhance corporate value. This includes focusing on increasing business profitability and integrating sustainability into our growth strategy. Based on this, in May 2024, we announced our long-term vision of "Daio Group Transformation 2035," targeting FY2035.

In formulating the Long-Term Vision, we engaged in extensive discussions, not only among top management but also with General Manager and higher ranking employees who will be responsible for leading the Daio Group over the next 12 years. While achieving full consensus among all employees was implausible, I believe that our direction was well understood and agreed upon by employees in higher-level positions.

At present, in addition to papermaking, we aim to develop our Home & Personal Care (H&PC) Business and the advanced materials field, focusing on four themes:

"Transformation of Areas," "Transformation of Strengths," "Transformation of Energy," and "Strengthening Sources of Value Creation." For "Transformation of Areas," we have clarified our intention to aggressively expand our business overseas in response to declining domestic demand. "Transformation of Strengths" marks a shift from the product-oriented approach of the past, which focused on quantity, to a consumer-centric approach that drives purchases through speedy product development and marketing tailored to consumer preferences. "Transformation of Energy" involves developing and implementing a roadmap to achieve carbon neutrality by 2050. In advancing these transformations, we believe it is crucial to firmly develop the human resources who will drive these changes and unlock the maximum potential of each individual. As such, we have positioned "Strengthening Sources of Value Creation" as the foundation of these transformations. Strengthening our management base, including human resources, will be our focus theme over the next three years, the duration of the 5th MTBP.

Medium- to long-term risks and opportunities

Market outlook and challenges

In Japan, a significant decline in paper demand is inevitable. I personally feel a sense of urgency that the market size could halve within 10 years. To maintain a competitive pulp production system at our core Mishima Mill under these circumstances, we must change our business model in Japan.
Outside of Japan, geopolitical risks have increased tremendously, and it is important to be able to take steps to eliminate such risks. Last year in China, we struggled with the impact of the boycott campaign against Japanese products following the release of treated water from the Fukushima nuclear power plant into the ocean. Globally, while some countries and regions are experiencing population growth, others are seeing declining birth rates. Hence, we need to transform our business model overseas as well, rather than focusing solely on disposable baby diapers as we have done in the past.
Market conditions, such as rising raw material and fuel prices, currency fluctuations, and supply and demand, are beyond the control of a single company. We will mitigate the impact of changes in the external environment on our operations by striving to use less expensive raw materials and other measures while hedging currency and resource risks to the extent possible.

Business opportunities and growth strategy

For medium- to long-term growth, as we expect an accelerating decline in demand for printing paper, we do not foresee the Paper and Paperboard Business, which has been the backbone of our operations, to drive future growth. The basic premise for our strategy moving forward is to adapt the offerings of the Paper and Paperboard Business to maintain current sales and profit levels, while expanding the H&PC Business at home and abroad to enhance overall sales and profit levels.
In the field of advanced materials, we plan to scale up the development of cellulose nanofiber (CNF), currently under practical application trials at our pilot plant, alongside our newly initiated biorefinery project, to a scale where we can expect a certain level of sales and profits going forward. In 2025, we will establish a commercial plant for CNF with an annual production capacity of 2,000 metric tons. CNF, a wood-derived material expected to become an alternative to plastic, requires significant cost reductions to boost market demand. Thus, our focus will be on minimizing production costs at the new plant to support its commercialization. In parallel, in the biorefinery field, we will drive product development to diversify the application of pulp beyond traditional paper products, converting it into various biofuels and biomass products, including sustainable aviation fuel (SAF).
Furthermore, we are confident that the market for our Pet Care business, recently launched by the H&PC Domestic Business last year, will experience significant demand growth not only in Japan but also in other countries facing declining birthrates and aging populations.
Across the pulp and paper sector, we anticipate significant market consolidation due to declining paper demand. By solidifying our foundation in this competitive landscape, we will continue to leverage our longstanding strengths to take on new challenges, while enhancing our corporate value and maintaining production and sales over the medium to long term.

The formulation of our 5th Medium-Term Business Plan "Reframe"

Review of the 4th MTBP

I was appointed president in the first year of the 4th MTBP. In that fiscal year, FY2021, we achieved record highs in net sales, ordinary profit, and net profit. However, in the following fiscal year, FY2022, the company experienced a rollercoaster performance, culminating in our first operating loss.
The sense of urgency concerning the substantial operating loss was shared across our entire workforce. With a strong determination to achieve a V-shaped recovery in FY2023, our company collectively embarked on structural reforms, including organizational streamlining and raw material cost reduction initiatives, and price revisions to align with rising costs. Specifically, we led the industry in implementing price revisions for our products three times, not only for elleair products, which hold top market share, but also for several other products. It was with a heavy heart that we communicated the revisions to our customers; however, we sincerely explained that the rising raw material and fuel costs left us with no viable alternative. We appreciate their understanding and acceptance of these measures. The dedication of our entire team, particularly the sales force who overcame significant hardships on the front lines, enabled us to turn our operating profit around in FY2023. However, despite this progress, we did not meet our target.
We achieved net sales of 671.7 billion yen, marking the 11th consecutive year of record high sales, but fell short of our initial target of 720 billion yen. Additionally, due to the net loss recorded in FY2022, we recognize the urgent need to improve our financial position. As such, addressing these issues remains a priority in our MTBP.

Prioritizing the rebuilding of the management foundation in the 5th MTBP

In recognition of these challenges, we started the 5th MTBP in FY2024, which employed a backcasting approach from our Long-Term Vision. This phase is designated as a period for rebuilding our management foundation to facilitate re-expansion in the 6th and subsequent MTBPs. With "Reframe" as the keyword, we aim to improve our financial foundation and enhance our human resources, the source of value creation. We have outlined a timeline wherein the groundwork will be laid, and the seeds will be planted over the next one to two years. We foresee that the seeds will sprout in FY2026, the final year of the 5th MTBP, and bloom in the 6th MTBP period. The numerical targets for the final year of the 5th MTBP are consolidated net sales of 740 billion yen and an operating profit of 30 billion yen. Although these targets might be perceived as conservative, in view of the current financial situation, we view this three-year period as one of patience, during which we will carefully select investments to prioritize reconstruction.
Our business model has previously focused on earning returns on capital investment. However, over the next three years, we will slow the pace of capital investment to maximize production efficiency with our existing facilities. As we transition to ROIC

(Return on Invested Capital) management, our emphasis will be on efficiently recovering invested capital. Simultaneously, we will strengthen funding in areas fundamental to generating future value, including human resource development and research and development.
In July 2024, we established the Investment and Loan Committee. We will improve the efficiency of investments and financing through thorough deliberation before implementation and careful verification of the effectiveness after implementation. In terms of internal numerical management, we are advancing ROIC management by clearly defining ROIC metrics for each division and integrating these metrics into performance evaluations and compensation. By employing the Investment and Loan Committee to clearly identify the returns on our investments, we will transform from a traditional business model of aggressive investment in facilities to an organization and corporate culture rooted in capital efficiency and the maximization of profit with minimal investment.

Human resources as the source of value creation

As the working population continues to decline and securing human resources becomes increasingly challenging, it is crucial for us to position ourselves as the company of choice for our stakeholders. We believe that drawing out and enhancing the abilities of each and every employee is key to increasing our corporate value. To this end, we will strengthen our efforts under the 5th MTBP. In our 2024 reorganization, we have separated the general affairs and human resources functions to place even greater emphasis on our people. Furthermore, we have revised the evaluation and compensation system to be more robust and dynamic, with clear evaluation criteria that strongly reflects our shift to a competency-based approach.
I have begun engaging with employees through town hall meetings and other events, and I have observed that the top-down corporate culture is still very much in place. The results of our engagement surveys highlight the need for broader and more effective communication. To address this, we have introduced one-on-one meetings between supervisors and their staff, along with 360-degree evaluations and other measures. These initiatives aim to swiftly establish a system that facilitate better communication within the organization. In addition to disseminating messages to employees through our internal communication tool, I make it a priority to take time to directly converse with employees during my visits to various sites. During these interactions, I believe it is important to first create a psychologically safe space where employees feel comfortable sharing their perspectives. Therefore, I take on an active listening role to foster open dialogue and encourage candid and constructive conversations. Through these efforts, I hope to bridge the gap between leadership and employees, ultimately enhancing our overall engagement.
Moving forward, we aim to strengthen our human resources capabilities in three major areas. First, to accelerate the pace of development in new growth areas of CNF and biorefinery, we will expand our team of engineers by strengthening the hiring of both fresh graduates and experienced professionals who possess expertise in these domains. We will proceed with a sense of urgency, as we believe that falling behind in these crucial sectors could jeopardize the future of our company. Our second focus area is human resources involved in product development and marketing. In addition to expanding the hiring of experienced professionals, we will also strengthen in-house training. The third is global human resources. While language skills are essential, we place an even greater importance on training employees who embody the principle of "When in Rome, do as the Romans do." These employees will be nurtured for overseas assignments, enabling us to build a pool of global talent to facilitate a dynamic personnel rotation system. In addition to this, we will promote local employees to senior management positions. Furthermore, we will keep our doors wide open and strengthen external recruitment. Our commitment to a competency-based system is evident, as demonstrated by the appointment of an outside hire to the position of executive officer.

Outlook for FY2024

In FY2024, we are facing a headwind from the currency environment, with the yen depreciating even further than last year. In addition, raw material and fuel prices have recently risen again, contributing to an upward trend in various costs. While price revisions implemented for many of our products will help us sustain sales growth in FY2024, we remain mindful of the inflationary pressures on our cost structure and the imperative to safeguard our profitability. Depending on the situation, we may need to consider further price revisions. Amidst these challenges, we will focus on strengthening our earning power.

Sustainability transformation (SX)

In response to growing external demands for greater disclosure, we have elevated the Sustainability Promotion Department to a full division and will expand its staff to strengthen and accelerate our sustainability efforts. Our goal is to advance our initiatives for sustainability and become a company that is trusted by society and supported by more investors than ever before.
While all 10 of the material issues that we have identified are important, our most significant challenge is the environmental issue, i.e., how to accelerate our decarbonization efforts. While this endeavor demands significant capital investment, we are resolutely committed to achieving our interim goal: a 46% reduction in fossil-fuel CO_2 emissions by 2030 compared to FY2013, paving the way for carbon neutrality by 2050. Key initiatives on our roadmap include in-vessel composting and transition to natural gas, among others.

Message to stakeholders

Toward improving corporate value

Our price-to-book ratio is currently below 1x, and we recognize its recovery as a critical management priority. To address this, we are dedicated to working diligently to improve our performance and demonstrating our growth trajectory through concrete results.
I myself am deeply committed to actively engaging with our investors, both in Japan and overseas. When making management decisions, I consistently consider the concerns and requests raised during these interactions. A common question is about the future of our Paper and Paperboard Business, as demand for paper continues to decline in Japan. Some have suggested that we should divest unprofitable segments and focus on more promising areas. However, whether in our H&PC Business or the advanced materials field, we are effectively utilizing and developing the by-products of our papermaking operations. When we explain that we do not believe in abandoning a business solely because it is in a shrinking market, our investors generally understand and appreciate our approach. This underscores the value of holding investor meetings. In addition to holding meetings with institutional investors, we also hold sessions with domestic individual investors to inform them about our business strategies and other updates twice a year. Many people still do not associate the elleair brand with Daio Paper, revealing a gap in our corporate communication. We acknowledge this issue and are actively working to enhance our shareholder benefits program to grow our individual shareholder base.
In a chaotic business environment, it is crucial to read the wind and make the first move. We have positioned this particular year as a period to reconstruct our foundation for this purpose. Despite the challenging business landscape, we will do our utmost to achieve further growth, and we earnestly ask for the continued understanding and support of all our stakeholders as we navigate these times.

Message from the Officer Responsible for Financial Affairs

Strengthening financial foundation and returning to growth trajectory

Shuhei Shinagawa
Director, Managing Executive Officer

Long-Term Vision "Daio Group Transformation 2035"

In May 2024, we formulated a long-term vision targeted at FY2035. As the business environment surrounding Daio rapidly evolves, it is essential for all officers and employees to share a common understanding and move forward together in the same direction. This Long-Term Vision clarifies the challenges we need to overcome in order to sustainably enhance our corporate value, with an eye toward 2035 and even beyond to 2050.
In the domestic market, the demand for graphic paper continues to trend downwards due to the progress of digitization and other factors. In addition to this, the business environment has been impacted by the three-year pandemic, sharp rises in raw material and fuel prices triggered by the Russia-Ukraine conflict, and the recent rapid depreciation of the yen. Under such circumstances, in order to achieve sustainable growth over the medium to long term, our Group must address three major challenges.
The first is globalization of the Home & Personal Care (H&PC) Business. In light of the shrinking domestic market, we will focus on overseas markets and advance the globalization of the H&PC Business. In FY2023, the H&PC Business generated sales of approximately 300 billion yen, of which approximately 200 billion yen was from domestic business and approximately 100 billion yen from overseas business. Of the overseas sales, about 70 billion yen came from Central and South America, and 20 billion yen from Asia. We plan to expand both domestic and overseas sales to 350 billion yen each by FY2035. While continuing to concentrate management resources on Central and South America, from a medium- to long-term perspective, we recognize significant growth opportunities in the Indian and African markets and they will be key to accelerating our global expansion.
Japan, our home market, will remain pivotal in our global expansion strategy for the H&PC business. Amid a shrinking population, we will shift our focus to high value-added and differentiated products to improve profitability. We envisage the domestic business as the primary profit driver, leading the growth of the entire H&PC Business.
The second is early commercialization of new businesses, primarily in the field of new materials. We aim to develop new businesses in fields such as cellulose nanofiber ("CNF"), which we have been developing to date, and biorefinery. These fields, based on pulp and woody materials, allow us to leverage the technologies and know-how we have cultivated.
For CNF, the start of operation of a pilot plant for CNF composite resin in 2022 has accelerated the development of manufacturing processes and applications. Consequently, we have decided to construct a commercial plant of a scale that will enable social implementation. The commercial plant, with an annual production capacity of 2,000 metric tons and an investment of approximately 4.0 billion yen, is planned to commence operation in FY2025. This will pave the way for the commercialization of CNF through the development of a wide range of applications.
Regarding biorefinery, we will work on a project under the main theme of "Establishment of technologies including saccharification and fermentation methods." This is a project that has been adopted by the New Energy and Industrial Technology Development Organization (NEDO). Our immediate goal is to conduct demonstration tests of several tens of thousands of kiloliters per year by FY2030. We will continue efforts toward our ultimate goal of expanding applications to sustainable aviation fuel (SAF) and bioplastics.
The third is energy transition toward carbon neutrality. We aim to fundamentally shift the energy mix of our production activities, which have been largely dependent on fossil fuels, in order to steadily progress toward our goal of achieving carbon neutrality by 2050. Positioning the period up to 2035 as a transitional period toward carbon neutrality, we will work to reduce fossil fuel-derived CO_2 emissions and increase our plantation area to increase CO_2 absorption and fixation.

Strategic business alliance agreement with Hokuetsu Corporation

In May 2024, we entered into a basic strategic business alliance agreement with Hokuetsu Corporation (hereinafter, "Hokuetsu"), a company in the same industry. This agreement is highly significant in light of the long history of both companies. While maintaining our independence and healthy competitive relationship, we have begun specific initiatives. Daio and Hokuetsu are an optimal combination from the perspective of the locations of our mills, including Daio's Mishima Mill and Hokuetsu's Niigata Mill. Through this business alliance, we intend to mutually source raw materials, and implement measures to reduce manufacturing costs and improve logistics efficiency. These efforts are intended to strengthen the business foundation of both our paper and paperboard businesses, while enhancing the medium- to long-term corporate value of each company. Promptly after entering into the alliance agreement, we transitioned from discussions to implementation at the subcommittee level. Specific measures include: reduction of machinery maintenance costs by sharing information on maintenance, such as periodic inspections of mill facilities and machine repairs, and by mutually utilizing machine parts; reduction of raw material procurement costs through mutual sourcing of pulp and wood chips; and improving the efficiency of secondary delivery by mutually utilizing railroad containers privately owned by Hokuetsu. We will steadily implement these measures to achieve our goals.

Review of the Fourth Medium-Term Business Plan from a financial perspective and the positioning of the Fifth Medium-Term Business Plan

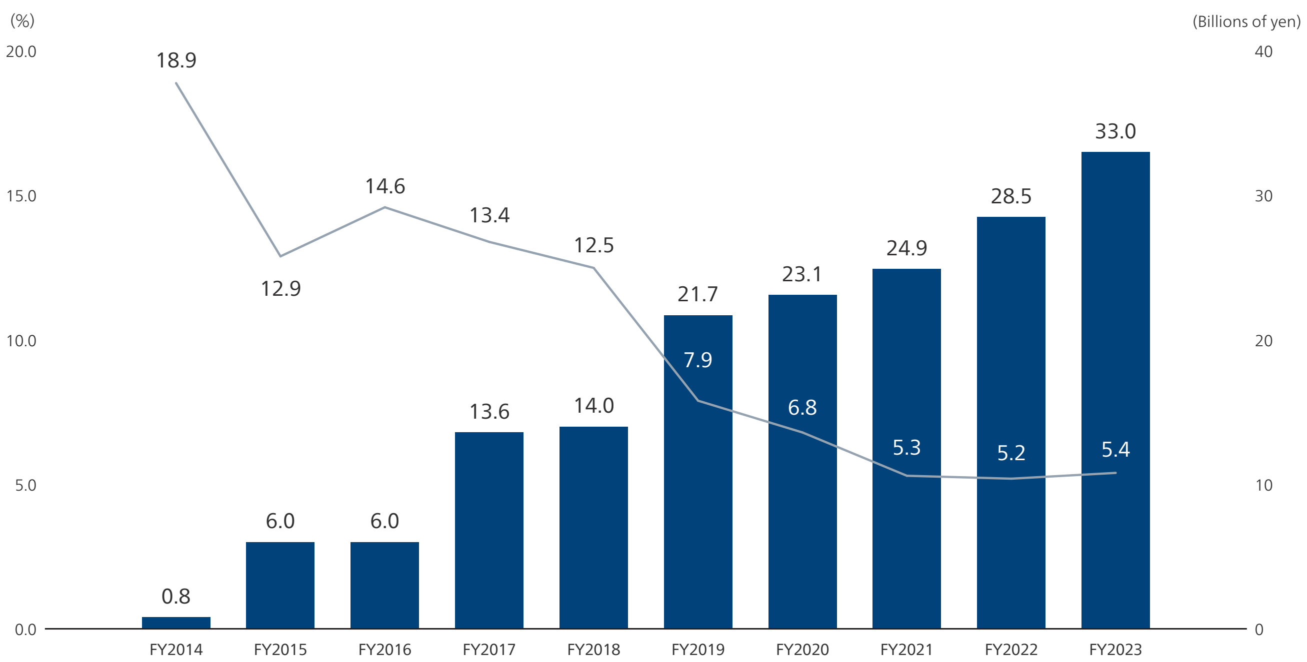
In our Fourth Medium-Term Business Plan (hereinafter, "MTBP"), we aimed to reap the benefits of the upfront investments made during the first three MTBP periods and to advance further structural reforms by working on three basic policies: transforming our business portfolio, improving our financial position, and responding to environmental issues. While net sales continued to reach record highs, they fell short of the initial target. Due to our failure to promptly adapt to rapid changes in the business environment, such as soaring raw material and fuel prices and the impact of yen depreciation, we posted an operating loss in FY2022, the midway point of the 4th MTBP, marking our first such loss since our listing. Although we returned to profitability in FY2023, we did not generate the anticipated amount of cash. Over the three years of the 4th MTBP, we failed to build up retained earnings, and our capital efficiency deteriorated, regrettably weakening our financial position.
In light of this situation, we have positioned the three years of the 5th MTBP as a period for building up strength

for further advancement in the 6th MTBP and beyond, and have set strengthening our financial foundation as a priority. The numerical targets for the 5th MTBP are 740 billion yen in net sales, 30 billion yen in operating profit, and an operating margin of 4.1%. While these targets are by no means ambitious, our primary focus is on establishing a solid foundation. As of March 31, 2024, our net D/E ratio stood at 1.5x, and we aim to reduce this to 1.2x by the end of the 5th MTBP, which is still above the initial target of 1x set in the 4th MTBP. Achieving the 1.2x target is vital, and we remain committed to further bringing the ratio below 1x as swiftly as possible.
Looking ahead to the 6th MTBP and beyond, in order for our Group to make another leap forward, we need to make capital investments and M&A investments. However, a compromised financial position could diminish our creditworthiness, limiting our options for growth investments. During the 4th MTBP period, we set a target of obtaining a credit rating of "A" and we achieved this in FY2021. To maintain this rating in the future, we must strengthen our financial foundation and return to a growth trajectory that generates solid cash flows from our business activities. A sound financial position is also essential for supporting our business strategies. Therefore, we will implement improvement measures as a matter of urgency to ensure that we can respond to various funding needs with flexible and optimal financial solutions from a wide range of options.

Toward strengthening our financial foundation

We recognize the ongoing need to improve our cash conversion cycle in order to strengthen our financial foundation. Since last fiscal year, we have been working to shorten the accounts receivable collection period, particularly in the Paper and Paperboard Business, which has longer collection periods than other businesses. With the understanding of our business partners, we have seen a certain level of results and will continue this effort in the future. With regard to inventory, achieving permanent reductions has been a challenge due to the need to maintain a stable supply and ensure operational efficiency of our machines. However, we are actively addressing this by reducing SKUs in the H&PC Business and by strictly aligning production plans with demand trends.
In addition to these efforts in our business activities, we will also promote the sale of non-core assets and cross-shareholdings. As part of our asset-light strategy, we plan to sell non-core assets with a combined value exceeding 5 billion yen during the 5th MTBP period, and we will consider further increasing the amount. As for cross-shareholdings, we have sold shares totaling 33 billion yen in value over the past decade, starting from FY2014. As of March 31, 2024, cross-shareholdings accounted for 5.4% of consolidated net assets, and we will continue efforts to further reduce cross-shareholdings.

[Amount of cross-shareholdings sold]



Investment strategy for growth

Although we are in a tough business environment, we need to pursue both improvement of financial position and a growth strategy, to enhance our corporate value and ensure a sound financial position. We plan to make capital investments of 91.5 billion yen under the 5th MTBP, which is a decrease from the 3rd and 4th MTBPs. We will make growth investments in carefully selected areas where early return on investment can be expected, while striking a balance with efforts to improve our financial position. We also intend to allocate a certain amount of investment to areas such as human resources and R&D, which will be the source of future value creation.
Specifically, we plan to invest primarily in environmental initiatives, new businesses, and the development of organizational structures and human resources that will support the Group's transformation. Regarding environmental investments, we position the period up to 2035 as a transitional period toward achieving carbon neutrality, and in the 5th MTBP, we will focus on reducing fossil-derived CO_2 emissions through the restart of operation of No. 4 biomass boiler at Iwaki Daio Paper.
In parallel with environmental investments, we will make investments to strengthen new businesses to increase future cash flows. In the pet care sector, into which we made a full-scale entry in FY2023, we aim to increase recognition of the "elleair Pet kimiomoi" brand and establish a strong presence in the pet care products market. In the field of CNF, we will strengthen our supply capabilities, focusing primarily on composite resin, and make investments to develop sales channels and promote sales activities. As for biorefining technologies, which we have been developing to make effective use of surplus pulp and other resources, we will focus on establishing technologies with the aim of demonstrating production of several tens of thousands of kiloliters per year by FY2030.
To support the development of next-generation businesses in the advanced materials field, we plan to increase our R&D expenditure, including investment in human resources, from approximately 3.3 billion yen in FY2023 to approximately 5.0 billion yen in FY2026.

Approach to investment in human resources

In our Long-Term Vision, we have established focus themes for transformation, including global expansion, strengthening of R&D and marketing capabilities, and energy transition. In implementing these initiatives, the source of value creation lies in our human resources. Every employee is a key contributor to our company's success. It is therefore important to develop and acquire human resources who can drive transformation. In the 5th MTBP, we plan to invest 2.4 times more in employee training than in the 4th MTBP. Our goal is to engage our employees in reskilling through various training programs and job rotations to help them achieve self-realization through work. In addition, to prepare for global business expansion, we will work to expand our talent pool by enhancing training programs including study abroad opportunities for young employees and by clearly outlining career paths for global human resources. Furthermore, we are actively hiring experienced personnel who can bring new perspectives and insights, not only in new businesses but also in existing business domains, to invigorate our organization.

ROIC management

In order to use return on invested capital (ROIC) as an internal indicator, we have worked to instill ROIC in our corporate mindset by using the ROIC tree, which breaks down ROIC into its component elements and links them with familiar management indicators used at the field level. We are calculating ROIC for each business segment while also conducting issue analysis. In that sense, I believe we have reached the starting point of ROIC management. To successfully put ROIC management on track, we recognize that, in addition to ongoing awareness-raising activities, we need to establish a system that allows for efficient and consistent calculation and sharing of indicator figures, for example, through systemization. Furthermore, as part of efforts to achieve management that is mindful of capital costs, the newly established Investment and Loan Committee will leverage ROIC in the deliberation of investment projects and performance evaluation.

Establishment of the Investment and Loan Committee

In July 2024, we established Investment and Loan Committee as an advisory body to the President. The Committee was created for the purpose of building a mechanism that ensures rational decision-making in investment and loan processes by aligning them with our medium- to long-term management policies, investment and loan priorities, and risk assessment results. Another reason for establishing the Committee is that, as a company listed on the Prime Stock Exchange, we are required by the Corporate Governance Code to practice management that is mindful of the cost of capital and return on capital. We also aim to further instill ROIC management throughout the Group and strengthen internal controls. The Committee will not only enhance discussions on investment strategies, but also rigorously verify the assumptions behind investment plans and thoroughly examine their probability of success. The Committee will also work to further strengthen post-investment monitoring, and share insights from both successful and unsuccessful cases. By doing so, we aim to increase the number of successful cases.
The Committee meets once a month in principle and is chaired by the Executive Vice President. Outside Directors participate as observers, and we expect them to provide advice from an objective perspective, drawing on the knowledge and expertise they have gained through their past experience.

About PBR

Our price-to-book ratio (PBR) remains below 1x, and we consider this to be a major management issue. We recognize that this is due to a decline in profitability and cash flow generation capability.
In FY2022, we failed to quickly respond to rapid changes in our external business environment, resulting in a significant deficit and deterioration in our financial position. The following year, FY2023, we returned to profitability, but our ROE remained at 1.9%, well below the cost of shareholders' equity of 5-6% (calculated using CAPM) for the same year.
In the 5th MTBP, we have set the ROE target for FY2026 at 4.5%. However, this target does not even meet the cost of shareholders' equity for FY2023. Given that investors generally expect a higher rate of return than what is calculated using CAPM, and anticipating an increase in the cost of shareholders' equity in the future, we aim to quickly restore our ROE to around 10%, the level achieved during the 3rd MTBP.
To this end, we will first focus on steadily implementing the measures set forth in the 5th MTBP and further promote ROIC management. This will help us realize a cycle necessary for sustainable growth and enhanced corporate value, which is our financial and investment vision. In addition, we will further strengthen our investor relations functions and activities so that our stakeholders can gain a deeper understanding of our growth strategy, our path toward expanding business profitability, and our efforts to improve capital efficiency.

[Our financial and investment vision: A cycle necessary for sustainable growth and enhanced corporate value]

There is no clear starting point for the above cycle. If we start with "1. Business portfolio strategy (investment for growth)," this will bring about "2. Improved profitability and cash flow generation capability (ROIC exceeding WACC)," which will lead to "3. A sound financial position (maintaining a credit rating of A)" and will also enable "4. Flexible financial strategy (realization of optimal capital structure)." This, in turn, will loop back to "1" through the appropriate allocation of management resources, creating a continuous cycle.

Policy for shareholder return

We consider shareholder return as one of our most important management issues, and have adopted a policy of maintaining stable dividend payments, while taking into consideration such factors as business performance and enhancement of internal reserves. Since FY2021, we have used the dividend on equity ratio (DOE), which indicates the ratio of dividends to net assets, as an indicator. Our medium- to long-term target for DOE is 2%, which is based on industry benchmarks. Due to a dividend cut following the loss-making financial results in fiscal 2022, the DOE has stalled at 1.1% since FY2022, compared to 1.5% in FY2021.
For the time being, we need to prioritize improving profits through reinvestment in growth and new fields. Additionally, our policy of stable dividends makes it difficult to increase dividends rapidly, but we hope to achieve a DOE of 2% as soon as possible.

Message to stakeholders

To enhance our corporate value, it is essential to earn the trust and cooperation of all stakeholders, including our shareholders. By enriching shareholder returns and actively engaging in dialogue with our shareholders, and by diligently implementing the 5th MTBP, we aspire to create a management structure that achieves a PBR exceeding 1x at the earliest opportunity. We ask for the continued understanding and support of our stakeholders.